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SUBJECT: EUROPEAN COMMISSION OFFICIALS SKEPTICAL ON
BUDGET SUPPORT FOR GEORGIA; SIGNAL THAT AID WILL BE
SMALLER THAN U.S. CONTRIBUTION

¶1. (SBU) In an August 28 meeting with members of a U.S. economic delegation returning from an assessment trip to Georgia, European Commission (EC) officials expressed skepticism about some aspects of the Georgian request for assistance, especially the GOGs plea for budget support. According to the Commission officials, the EC will offer additional economic assistance to Georgia beyond the 6 million euros already promised by ECHO, the European Commission's humanitarian aid agency. However, any aid package is unlikely to be as robust as that provided to either Kosovo or to the Palestinian territories, two areas where EC foreign assistance plays a significant role. End Summary.

¶2. (SBU) On August 28, Gunnar Wiegand, RELEX Director for Eastern Europe, Southern Caucasus and Central Asia, and Barbara Lucke, Head of Unit for Europeaid's Office of Geographical Coordination and Supervision for Europe, met with visiting USG officials Dan Rosenblum, State/EUR/ACE, Roland DeMarcellus, State/EEB/IFD/ODF and Doug Menarchik, USAID/E&E, who were transiting Brussels en route from Tbilisi to Washington. After listening to an assessment of the Georgian economic situation from the U.S. team, Wiegand noted that the European Commission's response on assistance to Georgia will partly depend on the findings of an EC assessment team now in Georgia and scheduled to return to Brussels shortly. Early reports from the EC team, which largely track U.S. assessments, suggest that physical damage is less widespread than originally feared and that reconstruction costs will be considerably less than in places like Kosovo and Lebanon. However, EC assessors are concerned about the long term economic impact of the Russian invasion, partly on account of damaged infrastructure but also because of the chilling impact that it will inevitably have on foreign investment. Under any scenario, the Commission believes Georgia faces significant economic challenges in the months ahead.

Commission Skeptical of Budget Support to GOG; Probable Barroso Offer to Host Donor Conference

¶3. (U) Despite the seeming similarity in our assessments of the Georgian situation, when asked about providing budget support to the Georgian government in view of the potentially grave loss of foreign direct investment, Weigand responded with a considerable amount of

skepticism. While noting that the EC often champions budget support in other contexts, Wiegand expressed concern that extending substantial budget support to the GOG could lead to significant accountability problems. Wiegand pointedly noted that the Georgian government consists mainly of U.S. Qtrained Qlawyers rather than bankers." According to Wiegand, the EC will Qkeep an open mindQ about budget support but will almost certainly want to include a high degree of conditionality in ways that the QGeorgians may not always have in mind. Wiegand and Luecke added that EC views on the use of budget support will also be shaped by perspectives provided by the IMF and the World Bank.

14. (SBU) Wiegand told the U.S. delegation that at the September 1 European Council meeting, Commission President Barroso is likely to offer to host a donor conference for Georgia in Brussels later this fall, noting that the Commission has hosted similar events including the recent Kosovo donor conference in July. Counterparts added that the EU had already hosted a donor conference for Georgia four years ago, resulting in \$800 million in pledges at that time. That said, they acknowledged that senior Georgian officials are not enthusiastic about the idea, not only because of concerns that it will take too long to organize a conference but also due to a stated desire to receive budget support from the broader international community with a minimum of strings attached.

15. (SBU) EC officials indicated an interest in moving

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forward with other measures to support Georgia. For example, ongoing discussions on a free trade agreement will probably continue, though there are concerns that the Georgians Qwant a quick and shallow free trade agreementQ while the EU prefers one that is Qdeep and comprehensive,Q encompassing a range of reforms aimed at helping Georgia move toward European regulatory standards. (Comment: This is a goal that fits with the Commission's energetic efforts to spread its standards to as many countries and regions as possible. End Comment.) Wiegand hinted broadly that the Commission would take a tough line with the Georgians regarding the Georgian government's wariness of moving closer to the European *acquis communautaire*. He asserted that moving closer to the EU was a Qmatter of survivalQ for Georgia, and urged the Georgians to have a more Qpragmatic attitudeQ about harmonizing with the *acquis*. Visa facilitation is another area of potential interest, Wiegand said. Elaborating, he pointed out that currently, Russian and Ukrainian and other QneighborhoodQ citizens (and, by extension, South Ossetians and Abkhazians who hold Russian passports) have easier travel access to the EU than Georgians, and this is an issue Qthat needs to be looked intoQ.

Russian Recognition of Breakaway Republic a Significant Negative; Fear of QEthnic Cleansing

16. (SBU) EC counterparts noted that politically, Russian recognition of South Ossetia and Abkhazia Qchanged matters for the worse." Ethnic cleansing is also a growing concern. According to some reports, Qthere are no Georgians leftQ in South Ossetia. By some accounts, Russia anticipates providing an assistance package of up to one billion dollars for South Ossetia, presumably aimed in part at integrating the region more closely to Russia.

17. (SBU) EC interlocutors noted that long-term EU/EC economic support for Georgia also depends on discussions among the 27 EU member states. Already, differences of opinion are emerging, with some (including EU countries

with significant Russian minorities) arguing for a strong EU reaction and others urging a more measured response in order to minimize damage to EU-Russian relationships on a range of other issues.

18. (SBU) Developing a common EU approach toward Russia is vital, according to Wiegand, particularly because the next EU-Russia Summit is scheduled to take place in Nice in mid-November. It is important that the burden for worsening relations with Russia be carried broadly, not just by the EU or NATO. In looking ahead to Nice, there is a sense that a hoped-for broad network of cooperative efforts aimed at strengthening the relationship between the EU and Russia and putting it on a more long-term strategic footing will now have to be put on ice.

19. (SBU) Comment: The initial U.S. and EU on-ground assessments appear broadly similar, with EU counterparts affirming that while short-term destruction may be less widespread than initially feared, the long term economic consequences of the war for Georgia are likely to be severe. That said, the size and shape of the planned EC economic support for Georgia that will eventually emerge remains undefined. The internal obstacles within the EC bureaucracy to both budget support and a robust aid package for Georgia are significant. Ultimately, it is the political discussion within the EU including in both the European Council and European Parliament--that will determine the economic response. The next step in that process will be the Extraordinary European Council meeting on the situation on Georgia scheduled for this Monday (September 1), an event that will hopefully give the internal economic assistance discussions a stronger impetus. European Parliament discussions on Georgia, also scheduled for Monday, should help shape the European response as well. End Comment.

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